

STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

OF

**BENEFICIAL LIFE INSURANCE COMPANY**

OF

SALT LAKE CITY, UTAH

AS OF

DECEMBER 31, 2003



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June 23, 2005

Honorable Alfred W. Gross, Commissioner  
Chair, Financial Condition (E) Committee, NAIC  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
P.O. Box 1157  
Richmond, Virginia 23218

Honorable Linda Hall, Commissioner  
Secretary, Western Zone, NAIC  
State of Alaska  
Department of Community & Economic Development  
Division of Insurance  
550 West 7<sup>th</sup> Avenue, Suite 1560  
Anchorage, Alaska 99501

Honorable D. Kent Michie, Commissioner  
State of Utah Insurance Department  
3110 State Office Building  
Salt Lake City, Utah 84114

Pursuant to your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination, as of December 31, 2003, has been made of the financial condition and business affairs of:

**BENEFICIAL LIFE INSURANCE COMPANY**  
Salt Lake City, Utah

a stock life insurance company, hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered by Examination**

The last financial examination of the Company was conducted as of December 31, 2000. The current examination covers the period from January 1, 2001, through December 31, 2003, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

**Examination Procedure Employed**

The examination conducted a general review and analysis of the Company's operations, the manner in which its business was conducted during the period covered by

examination, and a determination of its financial condition as of December 31, 2003. It was based upon a top-down, risk-focused approach, employing a series of detailed process walk-throughs to evaluate systems controls. Work performed by internal and external audit functions retained by the Company or its parent, to test the referenced controls was reviewed and relied on where considered appropriate. Additional procedures to test controls and substantiate information reported were performed by the examination where considered necessary. This approach is consistent with the traditional examination methodology promulgated by the National Association of Insurance Commissioners ("NAIC"), and the applicable laws, rules, and procedures prescribed by the state of Utah.

An independent certified public accounting firm was retained for examination purposes to provide actuarial support, review the Company's electronic information systems controls and to train Department examiners in the execution of the top-down approach.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination working papers.

This examination was conducted under the association plan of the NAIC with the Utah Insurance Department ("the Department") representing the Western Zone, Zone IV.

#### Status of Prior Examination Findings

Representatives of the Nevada and Utah Insurance Departments conducted the prior examination which was as of December 31, 2000. Adverse findings noted in the report of examination were addressed by the Company.

### HISTORY

#### General

The Company was organized under the laws of the state of Utah as a capital stock life insurance company on May 5, 1905. The original incorporators were primarily members and associates of The Church of Jesus Christ of Latter-day Saints ("the Church"). In 1927, The Corporation of the President of The Church of Jesus Christ of Latter-day Saints, a Utah Corporation, ("Corporation of the President"), acquired all of the outstanding capital stock of the Company excluding directors' qualifying shares. Subsequent changes allowed the Corporation of the President to acquire the qualifying shares and become sole owner of the Company's outstanding capital stock by 1970. As of December 31, 2003, the First Presidency of the Church indirectly controlled the Company by virtue of its power to appoint the trustees of DMC Reserve Trust which controlled Deseret Management Corporation, the Company's immediate parent.

The Company filed a Business Name Registration / DBA with the Utah Department of Corporations on April 7, 2004, to do business as Beneficial Financial Group. The new name reflects the Company's strategic plan to provide financial services

to its policyholders. For all appropriate regulatory purposes, the Company continues to operate as Beneficial Life Insurance Company.

The Company operates under Utah Code Annotated ("U.C.A.") Title 31A. As of December 31, 2003, the Company was authorized to transact life, annuity and disability lines of insurance. The Company's articles of incorporation and bylaws were amended and restated as of December 20, 2002, and filed with the Department in February 2003. The commissioner approved the restated articles of incorporation on June 10, 2003, in accordance with U.C.A. § 31A-5-219(2).

The changes to the articles of incorporation entailed the removal of language describing the duration, purpose, size and scope of the governing body from Articles II, III and V, respectively. Sections of Article I of the bylaws were restated. Language discussing notice of meetings and the definition of a quorum were deleted. Four sections of Article II were removed, which included: Notice (of a meeting), Notice of Adjournment (to absent directors), Waiver of Notice (if those not present sign in writing), and Quorum and Vote. Restated Article II Section 2.2 reads, "The number of the directors shall be eight (8) until such number is changed by the Shareholder or the Board." The requirement for a Vice Chairman of the Board was removed, and according to restated Section 2.3, the President or an individual designated by the Chairman of the Board shall preside at meetings for which the Chairman of the Board is absent. Article III had seven sections removed, which included Compensation and Tenure of Office, Removal and Resignation, Vacancies, but language regarding the positions of Vice President, Secretary and Treasurer was restated into Section 3.3, Authority and Duties of Other Officers. Restated Section 3.4 gives the President or the Board the authority to delegate the duties of any officer in the case of their absence or disability. Restated Article IV indemnifies directors of the Company from being "liable to the Company or its sole shareholder for monetary damages for any action taken, or any failure to take any action, as a director."

#### Capital Stock

As of the examination date, the Company had authorized capital of \$10,000,000, divided into 400,000 shares of common stock with a par value of \$25 per share. One hundred thousand shares were issued and outstanding for a total of \$2,500,000 paid in capital and \$29,106,890 paid in and contributed surplus. As of December 31, 2003, Deseret Management Corporation, a holding company affiliated with The Church of Jesus Christ of Latter-day Saints, held one hundred percent of the Company's capital stock.

#### Dividends to Stockholders

No dividends to stockholders were declared or paid during the examination period.

## Management

Directors serving as of December 31, 2003, were as follows (including location and principal occupation):

<u>Name</u>	<u>Principal Occupation</u>
Kent Hales Cannon Salt Lake City, Utah	President & Chief Executive Officer Beneficial Life Insurance Company
Ned Cromar Hill Provo, Utah	Dean of Marriott School of Business Brigham Young University
Nolan Eldon Karras Roy, Utah	Registered Investment Advisor Raymond James Financial Services
William Henrick Nelson Salt Lake City, Utah	President Intermountain Health Care
Lloyd Aldin Porter Bountiful, Utah	Retired General Manager of Mutual of New York Life Insurance Company
Rulon Erastus Rasmussen Sandy, Utah	Insurance Agent Beneficial Financial Group
Karl Fred Skousen Provo, Utah	Advance Vice President Brigham Young University
Mary Anne Quinn Wood Provo, Utah	Attorney Wood, Crapo L.L.C.
Harold C. Yancey, Chairman Centerville, Utah	Retired Utah State Insurance Commissioner

Officers of the Company as of December 31, 2003, were as follows:

<u>Principal Officer</u>	<u>Office</u>
Kent Hales Cannon	President & Chief Executive Officer
Charles Louis Cutler	Senior Vice President & Chief Marketing Officer
Robert Roy Dalley	Senior Vice President & Chief Financial Officer
Paul Evan Hill	Vice President Financial Institutions
Hardi K. Jenkins	Vice President Product Management
Alden Brent Larson	Vice President Group Operations
Ted Duane Lewis	Corporate Secretary & Senior Vice President & General Counsel
Christopher Michael Miller	Senior Vice President Customer Operations
Steven Tyler Norton	Vice President of Sales Independent Distribution
Ronald Lee Owen	Vice President Underwriting & Customer Service
Dallas Jewell Richins	Senior Vice President Independent Distribution
Peggy Michele Stone	Vice President Human Resources
Steven William Terry	Vice President & Chief Information Officer

Subsequent to the examination period, Dallas Jewell Richins resigned. Christopher Michael Miller was appointed Senior Vice President, Independent and Institutional Distribution, effective September 1, 2004. Also, Steven William Terry was appointed Senior Vice President, Customer Operations and Chief Information Officer.

Committees of the Company as of December 31, 2003, were as follows:

Executive Committee

Harold C. Yancey, Chair  
Kent Hales Cannon  
Nolan Eldon Karras

Audit/Compliance Committee

Mary Anne Quinn Wood, Chair  
William Henrick Nelson  
Karl Fred Skousen

Human Resources Committee

Harold C. Yancey, Chair  
Kent Hales Cannon  
Althea R. DeBrule\*  
Peggy M. Stone\*  
Mary Anne Quinn Wood

Investment/Asset Liability  
Management Committee

Nolan Eldon Karras, Chair  
Kent Hales Cannon  
Roger G. Clarke\*  
Robert Roy Dalley\*  
Ned Cromar Hill  
Kent A. Misener\*

Marketing Committee

Rulon Erastus Rasmussen, Chair  
Kent Hales Cannon  
Charles Louis Cutler\*  
J. Richard Clark\*  
Jeffrey D. Erekson\*  
Richard Headlee\*  
John W. Homer\*  
Lloyd Aldin Porter  
Robert B. Young\*

\* Non-board members

Subsequent to the examination period, the Marketing Committee was dissolved. The Board of Directors determined the Marketing Committee was not necessary under the circumstances and not consistent with industry practices. Subsequent to the examination, Alan J. Folkman replaced Roger G. Clarke on the Investment/Liability Management Committee.

Conflict of Interest Procedure

The Company had an established procedure for disclosing to its board of directors any material affiliation on the part of its officers, directors, or responsible employees, which was likely to conflict with the individual's official duties. Each person was required to file an annual statement disclaiming or disclosing any material conflict of interest. No exceptions to the established procedure were noted by the examination.



### Corporate Records

Minutes of the meetings of the stockholders and board of directors were reviewed. The minutes indicated the Company operates within the scope of its authority and the directors are properly informed of and participate in Company affairs. Generally, at each annual Board meeting, a detailed report of investment transactions since the previous meeting was presented and approved.

The report of the examination of the Company generated by the Department as of December 31, 2000, was distributed to the board of directors on January 30, 2002, in accordance with U.C.A. § 31A-2-204(8). The targeted financial examination report, as of July 1, 2003, was presented to the members of the board at the meeting held on January 30, 2004.

### Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

The Company was not involved in any acquisitions, mergers, disposals, dissolutions, or purchases or sales through reinsurance during the examination period.

### Surplus Debentures

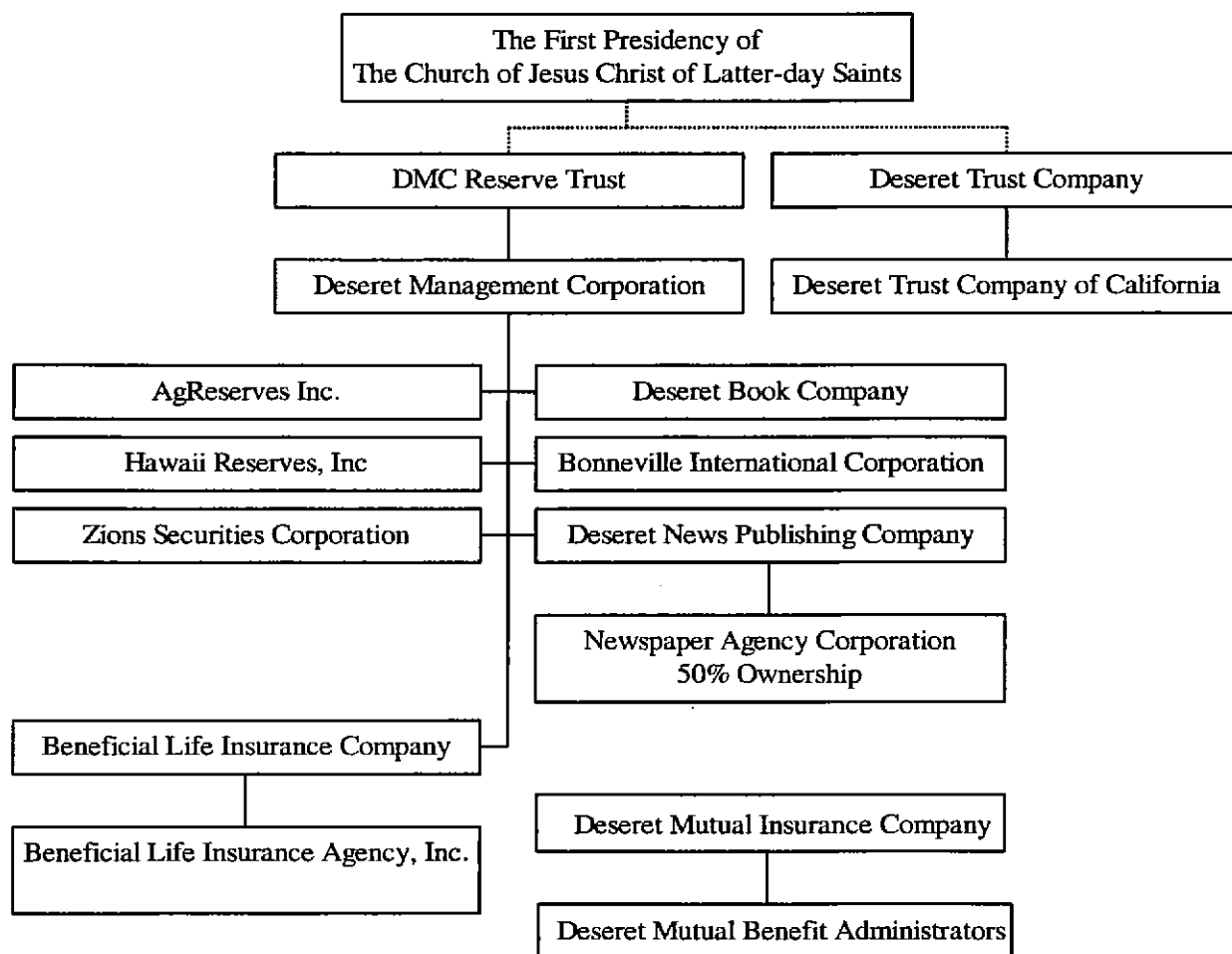
No surplus debentures were issued or were outstanding during the examination period.

## AFFILIATED COMPANIES

The Company is a member of an insurance holding company system. Through common ownership, management, or control, the Company is affiliated with numerous entities within the holding company system. In 1996, the Department permitted the Company to file an abbreviated organizational chart with its holding company registration statements and annual statements. The approved chart excluded religious and educational entities. By order dated October 22, 1998, Deseret Management Corporation was designated the entity to be considered the Company's ultimate controlling party.

The following organizational chart, as reported in the 2003 annual statement and the 2003 holding company registration statement filing, presents the identities of and interrelationships between the parent and its affiliates on December 31, 2003:

#### Insurance Holding Company System



#### Transactions with Affiliates

The Church of Jesus Christ of Latter-day Saints is an unincorporated religious association, which is overseen by the three members of the First Presidency. The First Presidency indirectly controls the Company by virtue of its power to appoint the trustees of DMC Reserve Trust. DMC Reserve Trust is a trust created by The Church of Jesus Christ of Latter-day Saints. DMC Reserve Trust holds no assets other than the stock of Deseret Management Corporation. While DMC Reserve Trust holds all of the voting stock of Deseret Management Corporation and therefore may have an indirect ability to direct the policies and management of the Company, its sole purpose is to hold Deseret Management Corporation's stock in trust for religious, charitable and educational purposes. Deseret Management Corporation is the entity that has the direct ability to influence the management and policies of the Company.

Deseret Mutual Insurance Company and Deseret Mutual Benefit Administrators are controlled by the companies identified in the chart and other affiliates, to provide employee benefits. Deseret Mutual Benefit Administrators provides Company employees with life, disability, medical, and dental insurance through Deseret Healthcare, a self-insured trust. The Company provides excess group life insurance and accidental death and dismemberment insurance to Deseret Healthcare.

The Company's federal income tax returns were consolidated with Deseret Management Corporation and other Deseret Management Corporation subsidiaries. The allocation of income taxes was based upon separate return calculations with provision for carry back and carry forward of net operating losses.

The custodial agreement between the Company and Deseret Trust Company provides the Company a facility for settlement of transactions and deposit of securities for safekeeping.

The Company executed an unsecured promissory note to Deseret Management Corporation, under which it may borrow up to \$100,000,000. The commissioner approved it on March 25, 2002. It was terminated during 2003, and no inter-company principal or interest payable existed at December 31, 2003.

The Company filed a Form D – Prior Notice of a Transaction on June 10, 2004, to provide notice of proposed Management and Administrative Services Agreements with two subsidiaries it formed in 2004: Allegis Advisors, Inc. and Beneficial Securities, Inc. Allegis Advisors, Inc. is a registered investment advisor that was approved by the state of Utah Securities Division on June 4, 2004. Beneficial Securities, Inc. is a limited scope broker-dealer that was in the process of being filed for approval with the State of Utah Securities Division and the National Association of Securities Dealers. The proposed effective date was June 1, 2004.

#### FIDELITY BOND AND OTHER INSURANCE

The amount of fidelity insurance coverage recommended by the NAIC for an insurer of the Company's size is between \$1,750,000 and \$2,000,000. As of December 31, 2003, the Company had fidelity coverage with a single loss limit of \$2,000,000 and a single loss deductible of \$100,000. The Company was also a named insured under policies providing property and liability coverage.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered employees a comprehensive benefit package through Deseret Mutual Benefit Administrators. Benefit plans included a choice of several medical and dental insurance plans, including vision care, group term life insurance, accidental death and dismemberment, and disability benefits. Participation in a tax qualified defined benefit retirement plan and a 401(k) plan was also available to full time employees.

The Company sponsored a qualified defined contribution 401(k) plan for its full-time agents. The plan required a minimum participant contribution equal to 2% of compensation. The Company's matching contribution was a three to one match of the first 2% of pension eligible compensation.

In addition to pension benefits, the Company contributed fixed monthly dollar amounts toward the purchase of medical, dental and life insurance for retired employees. The retirees paid the difference between the fixed amounts and total premiums. The Company was not committed to make any future increases in the fixed monthly dollar amounts. To be eligible for these benefits, employees must have earned pension benefits, have insurance coverage, and be employed when they reach retirement age. In 1993, the Company began advance funding for postretirement medical and dental benefits for employees retiring on or after January 1, 1994. Benefits for employees who retired before January 1, 1994, continued to be funded on a pay-as-you-go basis.

The Company also provided postemployment medical and life insurance benefits for employees on disability and for surviving spouses of deceased active employees. Provision was made in the Company's annual statement financial statements for all Company obligations under the above plans except for the post employment benefits. An actuarial valuation performed by Deseret Mutual Benefit Administrators established a liability of \$251,650 for these benefits.

The Company had an unfunded, non-tax qualified, deferred Executive Incentive Plan. Under the terms of the plan, incentive payments were made to participants once minimum thresholds in various performance categories were exceeded. One-third of the annual base incentive earned was credited to a deferral account. The Company placed an additional amount equal to one-third of the annual base incentive earned in the deferral account. Payments from the deferral accounts are permitted five years after accrual of the incentive payment. The accumulated deferred compensation was recognized as a liability of the Company.

The Company had two nonqualified deferred compensation plans. One plan was for a select group of officers and highly compensated employees and for members of the board of directors. The other plan was for a select group of highly compensated sales agents and agency managers. Contributions to the plans were withheld from compensation with payouts permitted over various time frames as elected by the participant. A liability was recognized in the financial statements.

## STATUTORY DEPOSITS

The following security was held on deposit in Utah for the benefit of all policyholders, claimants and creditors of the Company.

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Fair Value</u>
Utah	USTNTS - Bond	\$ 1,500,000	\$ 1,667,340

Special deposits not held for the benefit of all policyholders, claimants, and creditors, but held for the policyholders, claimants, and creditors of a particular jurisdiction as of December 31, 2003, were as follows:

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Fair Value</u>
Arkansas	USTNTS - Bond	\$ 150,000	\$ 166,734
Georgia	USTNTS - Bond	50,000	55,578
New Mexico	USTNTS - Bond	100,000	111,156
North Carolina	USTNTS - Bond	400,000	444,624
Virginia	USTNTS - Bond	80,000	88,925
Total		<u>\$ 780,000</u>	<u>\$ 867,017</u>

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Policy Forms and Underwriting

The Company issued life, annuity, and disability insurance policies. Life policies included universal, whole life, and term. Life insurance was available under the general categories of individual or group, smoker or non-smoker, and participating or non-participating. Depending on the category of the policy and the face amount requested, applications were underwritten non-medically; however, the Company reserved the right to require a medical examination whenever it was deemed necessary. The Company issued non-tax qualified and tax qualified deferred and immediate annuities. Long and short term disability income and individual and group medical insurance made up a small portion of the Company's total premium volume.

Several additional benefits were available as policy riders that could be attached to the above policies. These riders included accidental death, disability waiver of premium, guaranteed insurability, spouse and dependant coverage, supplemental voluntary group life, accelerated benefits and an accelerated death benefit rider for long term care.

A target market conduct examination was conducted for the period of July 1, 2003, through June 30, 2004, concurrent with the financial examination. Exceptions noted in the comparison of form stock to forms filed with the Department are disclosed in the report generated by the market conduct examination.

As of December 31, 2003, the Company's retention schedule, shown below, included a combination of individual life, term riders, and accidental death insurance. The retention limit of the ceding company for purposes of this agreement is 10% on a first dollar quota share basis of each risk up to a maximum of the following:

Maximum Retention Limit Schedule

Ages	<u>Substandard Risks *</u>		
	Standard	Tables A - F	Tables G - P
0-75	\$500,000	\$500,000	\$500,000
76-80	\$500,000	\$500,000	\$250,000
81-90 **	\$500,000	\$250,000	\$250,000

\* Tables refer to increased mortality risk. In general, table A requires a 25% greater premium than a standard risk and each succeeding table is 25% higher than the preceding table.

\*\* No automatic reinsurance available.

The retention limit for joint life products with joint issue ages 20-90 was \$500,000. The combined group retention limit, which included life, supplemental life and accidental death and dismemberment, was \$250,000.

Territory and Plan of Operation

The Company was licensed in forty-nine states and the District of Columbia as of December 31, 2003 as follows:

Alabama	Kentucky	Ohio
Alaska	Louisiana	Oklahoma
Arizona	Maine	Oregon
Arkansas	Maryland	Pennsylvania
California	Massachusetts	Rhode Island
Colorado	Michigan	South Carolina
Connecticut	Minnesota	South Dakota
Delaware	Mississippi	Tennessee
District of Columbia	Missouri	Texas
Florida	Montana	Utah
Georgia	Nebraska	Vermont
Hawaii	Nevada	Virginia
Idaho	New Hampshire	Washington
Illinois	New Jersey	West Virginia
Indiana	New Mexico	Wisconsin
Iowa	North Carolina	Wyoming
Kansas	North Dakota	

The Company markets its individual products through ten career insurance agencies with approximately 410 agents and thirty-four independent life insurance agencies with approximately 325 agents. These agencies are concentrated in the Western United States. An agency manager supervises each agency. A home office staff, under the direction of the chief marketing officer, supervises agency managers. The Company markets its group products through independent agents, who are directly supervised by the home office staff.

#### Advertising and Sales Material

The Company's insurance agencies and individual agents did most of the Company's advertising. Agent contracts require the pre-approval of advertisements utilizing the Company's name or logo.

Subsequent to the examination period, in June 2004, the Company ran a newspaper advertisement notifying policyholders and interested parties of its name change from Beneficial Life Insurance Company to Beneficial Financial Group.

#### Treatment of Policyholders

The Company maintained control over policyholder complaints throughout the examination period. Formal procedures to handle written complaints were in place. The Company recorded 209 policyholder complaints from January 1, 2001, through December 31, 2003. During the examination period, 15 formal complaints were filed with the Department, which were resolved and closed.

### REINSURANCE

#### Assumed

As of December 31, 2003, reinsurance assumed by the Company included individual and group yearly renewable term, individual life and annuity coinsurance, individual life and annuity modified coinsurance, individual and group accidental death benefits, and group accident and health insurance. A majority of the assumed business represented closed blocks of business. The Company's retention on assumed business was \$250,000.

Eighty-seven percent of the Company's assumed reserves for life policies and contracts was from coinsurance agreements with two companies, Clarica Life Insurance Company, effective December 31, 1988, and American Memorial Life Insurance Company, with treaties dated September 30, 1984, January 1, 1985, and January 1, 1986. Clarica Life Insurance Company merged into Midland National Life Insurance Company, effective April 1, 2004. Another seven percent of the assumed life reserve was from a yearly renewable term group agreement with Metropolitan Life Insurance Company, effective June 1, 1986.

The Company had a modified coinsurance agreement with National Life Insurance Company ("NLV") for variable products, which accounted for 82% of the

modified coinsurance reserves. The agreement allowed the Company to sell a variable product that was developed by NLV and the Company. The product was sold on NLV's policy form with 50% of the business ceded back to the Company. NLV held the entire reserve and was responsible for investments held under the arrangement.

#### Ceded

Business written above the Company's retention limits, described under the caption, Insurance Products and Related Practices – Policy Forms and Underwriting, was ceded on an automatic or facultative basis. The Company used automatic reinsurance pooling arrangements to reinsure most of its life insurance risk. Business that did not meet the criteria for automatic reinsurance was ceded on a facultative basis. Facultative reinsurers included all of the companies accepting risks on an automatic basis.

Eight coinsurance treaties accounted for 84% of the life policies and contracts reserve credit taken. The treaties were with Allianz Life Insurance Company of North America, effective November 1, 2000, Transamerica Financial Life Insurance Company, effective October 1, 1995 and November 1, 2000, Munich American Reassurance Company, effective June 1, 1998 and October 1, 2002, and Swiss Re Life & Health America Inc., effective June 1, 1986 and November 1, 2000.

The Company purchased group and individual life accident carve out reinsurance coverage from ING Re effective July 1, 2002, on a 90% (reinsurer) / 10% (Company) quota share basis up to a combined maximum of \$1,000,000 per person. This arrangement has no exclusions for terrorist acts including nuclear, chemical and biological events and covers all claims where the death was caused by accidental means. This arrangement does not apply to and specifically excludes losses arising from assumed reinsurance, and claims resulting from sickness, disease, illness and natural causes. There is a \$50,000,000 cap on group coverage and no limit on individual life business.

#### ACCOUNTS AND RECORDS

The Company's accounting system consisted of a general ledger, journals, registers, and statistical records normally maintained by a life insurance company. Most of the records were maintained on a network server-based environment. Data from the network servers was used by the Company to prepare annual and quarterly statement exhibits, schedules, and other financial statements. Subsidiary records were maintained in commercial software applications on stand-alone personal computers.

An examination trial balance, as of December 31, 2003, was prepared from an electronic copy of the Company's computerized general ledger. Account balances were traced to annual statement exhibits and schedules without exception. Individual account balances for the examination period were examined as deemed necessary.



## FINANCIAL STATEMENTS

The Company's financial condition as of December 31, 2003, and the results of its operations during the twelve months then ended, as determined by the examination, are reported in the following financial statements:

BALANCE SHEET as of December 31, 2003

SUMMARY OF OPERATIONS for the Year Ended December 31, 2003

RECONCILIATION OF CAPITAL AND SURPLUS - 2001 through  
December 31, 2003

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

BENEFICIAL LIFE INSURANCE COMPANY  
BALANCE SHEET (ASSETS)  
as of December 31, 2003

ASSETS

	<u>Net Admitted Assets</u>
Bonds	\$ 2,385,415,186
Preferred stocks	77,900
Common stocks	32,040,327
Mortgage loans on real estate: First liens	4,880,508
Properties held for the production of income	10,850,978
Cash and short term investments	7,905,468
Contract loans	128,095,827
Other invested assets	967,392
Investment income due and accrued	25,396,635
Uncollected premiums and agents' balances in course of collection	1,778,255
Deferred premiums, agents' balances and installments booked but deferred and not yet due	4,732,428
Amounts recoverable from reinsurers	1,723,232
Net deferred tax asset	4,937,625
Electronic data processing equipment and software	448,715
Other miscellaneous assets	447,811
Receivable on reinsurance assumed & ceded	1,250,972
Corporate owned life insurance	5,310,029
Total net admitted assets	<u>\$ 2,616,259,288</u>

BENEFICIAL LIFE INSURANCE COMPANY  
BALANCE SHEET (LIABILITIES, CAPITAL & SURPLUS)

as of December 31, 2003

LIABILITIES

Aggregate reserve for life contracts	\$ 2,104,753,823
Aggregate reserve for accident and health contracts	565,078
Liability for deposit-type contracts	33,227,907
Contract claims - life	10,708,190
Contract claims - accident and health	5,481,536
Dividends apportioned for payment	2,990,728
Premiums and annuity considerations for life and accident and health contracts received in advance	149,698
Provision for experience rating refunds	639,273
Interest maintenance reserve	7,300,547
Commissions to agents due or accrued-life and annuity contracts	120,047
Commissions and expense allowances payable on reinsurance assumed	8,112
General expenses due or accrued	7,831,293
Taxes, licenses or fees due or accrued excluding federal income taxes	1,499,479
Current federal and foreign income taxes	10,049,194
Unearned investment income	6,319,623
Amounts withheld or retained by company as agent or trustee	49,990,428
Amounts held for agents' account	1,182,317
Remittances and items not allocated	897,199
Borrowed money	150,116,110
Asset valuation reserve	9,084,530
Payable to parent, subsidiaries and affiliates	40,158
Payable for securities	1,500,000
Special annuity benefits held on deposit	385,646
Reinsurance assumed and ceded amounts payable	1,999,709
Other liabilities	470,000
Total liabilities	<u>2,407,310,625</u>

CAPITAL AND SURPLUS

Common capital stock	2,500,000
Gross paid in and contributed surplus	29,106,890
Group contingency reserve	5,511,094
Unassigned funds (surplus)	171,830,679
Total capital and surplus	<u>208,948,663</u>

Total liabilities, capital and surplus	<u>\$ 2,616,259,288</u>
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**BENEFICIAL LIFE INSURANCE COMPANY**  
**SUMMARY OF OPERATIONS**  
For the Year Ended December 31, 2003

**INCOME**

	<u>Amount</u>
Premiums and annuity considerations for life and accident and health contracts	\$ 355,741,129
Considerations for supplementary contracts with life contingencies	1,534,084
Net investment income	182,902,208
Amortization of Interest Maintenance Reserve (IMR)	1,027,068
Commissions and expense allowances on reinsurance ceded	3,270,413
Miscellaneous income	3,551,904
Totals	<u>548,026,806</u>

**BENEFITS**

Death benefits	70,572,623
Matured endowments	276,635
Annuity benefits	28,483,712
Disability benefits and death benefits under accident and health contracts	870,999
Surrender benefits fund withdrawals for life contracts	109,118,809
Group conversions	(8,365)
Interest and adjustments on contracts or deposit-type contract funds	2,716,004
Payments on supplementary contracts with life contingencies	4,029,299
Increase in aggregate reserves for life and accident and health contracts	204,651,777
Totals	<u>420,711,493</u>

**EXPENSES**

Commissions on premiums, annuity considerations and deposit-type contract funds	31,925,075
Commissions and expense allowances on reinsurance assumed	790,554
General insurance expenses	41,379,918
Insurance taxes, licenses and fees excluding federal income taxes	6,053,302
Increase in loading on deferred and uncollected premiums	(101,220)
Reinsurance Reserves Paid or Payable	(310,311)
Interest on Modified Coinsurance	(375,000)
Total benefits and expenses	<u>500,073,811</u>
Net gain from operations before dividends to policy holders and federal income taxes	47,952,995
Dividends to policyholders	2,928,479
Net gain from operations after dividends to policyholders and before federal income taxes	<u>45,024,516</u>
Federal income taxes incurred	18,775,692
Net gain from operations after federal income taxes and before realized capital gains or (losses)	<u>26,248,824</u>
Net realized capital gains or (losses)	(7,207,748)
Net Income	<u><u>\$ 19,041,076</u></u>

BENEFICIAL LIFE INSURANCE COMPANY  
RECONCILIATION OF CAPITAL AND SURPLUS  
2001 through December 31, 2003

	2001	2002	Per Exam 12/31/03	Notes
Capital and surplus, December 31, prior year	\$ 164,461,516	\$ 168,119,135	\$ 180,532,271	
Net income	10,717,430	4,641,232	19,041,076	
Change in net unrealized capital gains (losses)	(10,164,325)	(1,983,089)	853,255	
Change in net deferred income tax	(441,977)	5,779,704	6,068,254	
Change in nonadmitted assets and related items	1,963,639	(3,933,580)	(4,810,153)	
Change in reserve on account of change in valuation basis			(2,629,471)	
Change in asset valuation reserve	(1,052,115)	9,778,474	8,023,822	
Cumulative effect of changes in accounting principles	4,419,802			
Prior year adjustments	(1,784,835)			
Minimum pension liability		(1,869,605)	1,869,609	
Net change in capital and surplus for the year	<u>3,657,619</u>	<u>12,413,136</u>	<u>28,416,392</u>	
Capital and surplus end of reporting year	<u>\$ 168,119,135</u>	<u>\$ 180,532,271</u>	<u>\$ 208,948,663</u>	(1)

## NOTES TO FINANCIAL STATEMENTS

1. Capital and surplus \$208,948,663

The Company's capital and surplus was determined by examination to be \$208,948,663, as reported in its 2003 Annual Statement.

The Company's minimum capital requirement was \$400,000 pursuant to U.C.A. § 31A-5-211. The Company had total adjusted capital of \$219,528,557, as of December 31, 2003, as defined by U.C.A. § 31A-17-601, which exceeded the authorized control level risk-based capital (RBC) requirement of \$26,953,737 by \$192,574,820.

## SUMMARY OF EXAMINATION FINDINGS

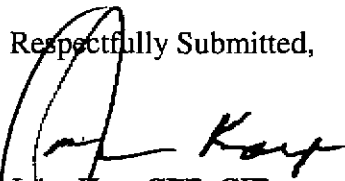
Items of significance commented on in this report are summarized below:

1. The Company's capital and surplus was determined to be \$208,948,663 as reported for the year ended December 31, 2003. The Company's minimum capital requirement was \$400,000 pursuant to U.C.A. § 31A-5-211. The Company had total adjusted capital of \$219,528,557, as of December 31, 2003, as defined by U.C.A. § 31A-17-601, which exceeded the authorized control level risk-based capital (RBC) requirement of \$26,953,737 by \$192,574,820. (NOTES TO FINANCIAL STATEMENTS)
2. The Company filed a Business Name Registration / DBA with the Utah Department of Corporations on April 7, 2004, to do business as Beneficial Financial Group. The new name reflects the Company's strategic plan to provide financial services to its policyholders. (HISTORY)

## CONCLUSION

In addition to the undersigned, Allen J. Hart, CFE, David Martinez, CFE, Colette M. Reddoor, CFE, CPM, participated in the examination representing the Utah Insurance Department. Participants in the examination from the certified public accounting firm of PricewaterhouseCoopers, LLC team were: Michael Fleitz, Partner, Mark Keeley, Systems and Process Audit Partner, Lee Covington, Harold Schueler, Risk-Focused Initiative Division, and John Stone, Senior Manager, Risk-Focused Initiative Division. Eric Scheuring, ASA, MAAA, Consulting Actuary with PricewaterhouseCoopers, LLC, conducted the actuarial phases of the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "John Kay", is written over a large, stylized circular mark.

John Kay, CFE, CIE  
Examiner-in-Charge representing the  
Utah Insurance Department and the  
Western Zone of the National Association  
of Insurance Commissioners